



Arizona Real Estate Advisory Board
2910 N. 44th Street, Suite 100
Phoenix, Arizona 85018

Janice K. Brewer
Governor

Arizona Real Estate
Advisory Board

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February 19, 2014

Dear Governor Brewer,

I write this letter with the utmost admiration and respect for your leadership in the great State of Arizona. Through your leadership Arizona weathered the economic downturn, came back strong and is attracting new businesses.

As Arizona attracts more businesses and the real estate market values stabilize, the Real Estate industry continues to face challenges. With this, there has never been a better time to have a responsive and responsible foundation of leadership at the Arizona Department of Real Estate. I feel our industry is fortunate in Arizona to be represented by Commissioner Judy Lowe. Her vast knowledge of the industry and practical foresight give her the ability to address situations with intellect and compassion beyond compare.

2013 presented many challenges to the real estate industry. Commissioner Lowe, her ADRE team and the Advisory Board tackled these challenges head on. For example, the property management area of real estate grew exponentially, with this growth came new obstacles. The Department promptly and effectively addressed requests regarding education, IT, audits and licensing.

In order to meet the challenges faced by the industry, Commissioner Lowe made changes in ADRE management that have proven to be right on point. Under her direction, the ADRE team successfully implemented personnel reform and 72% of eligible ADRE employees either met or exceeded their performance goals.

Commissioner Lowe and the ADRE team are committed to consistently providing top quality customer service to all licensees and Brokers while insuring increased protection to the public. This commitment to excellent, streamlined service was demonstrated in ADRE's successful partnership with the Government Transformation Office (GTO). During 2013, a team of ADRE employees worked cooperatively with GTO to streamline the Real Estate Licensee Disclosure process. As a result, processing time for licensing disclosures has been reduced by 90%.

With Commissioner Lowe's strong, balanced leadership and the commitment of the ADRE team she has put in place, I look forward to ADRE's continued success in protecting the public in 2014. On behalf of the Real Estate Advisory Board, I proudly and respectfully submit to you, the Arizona Department of Real Estate Advisory Board 2013 Annual Report.

Respectfully,

A handwritten signature in black ink, appearing to read "Kym Horn".

Kimberly A Horn

2013 Chairman ADRE Advisory Board

Arizona Department of Real Estate (ADRE)
Summary of Accomplishments
CY2013

In CY2013, Commissioner Lowe and the ADRE TEAM continued to implement the 2012-2017 ADRE Strategic Plan and developed the ADRE 5 Year Strategic Plan (2014 – 2018). Strategic issues addressed were: increased protection to the public; enhanced quality of license real estate education; streamlined/ efficient delivery of ADRE services; maximized ADRE technology platform; an accountable, skilled and committed ADRE TEAM; and adherence to ADRE fiscal guidelines.

The following reflects the 2013 individual division accomplishments:

COMMISSIONER’S OFFICE:

- A team of seven ADRE employees worked cooperatively with the Government Transformation Office on a project to streamline ADRE’s Disclosures process. As a result, processing time for licensing disclosures was reduced by 90%.
- Department employees first official cycle of MAP (the new statewide employee appraisal system) closed out on July 1, 2013 with 72% of eligible employees either meeting or exceeding their performance goals.
- As part of streamlining and strengthening the organization’s leadership, Commissioner Lowe filled two vacancies with the appointment of two Assistant Commissioners. Carla Randolph as the Assistant Commissioner of Licensing/ Education/ Development Services and Louis Dettorre as the Assistant Commissioner Operations/ Legislative Affairs. The Assistant Commissioner of Regulatory Affairs remains in his position. The Manager positions for these two Divisions will remain vacant.

BUSINESS SERVICES DIVISION:

- Implemented online reporting system for HUB and Mailroom staff to track, record, and automatically calculate daily performance statistics.
- Reduced reporting redundancies and data entry error rates by using a single data entry point for reports utilizing identical information; thus, allowing multiple reports to self-populate.
- Created new and revised existing process guides for all Business Services financial activities, e.g., accounts payables, Treasury report reconciliations, daily deposits, financial reports, etc.

HUB – Customer Service

- Two Customer Service Representatives in the HUB, ADRE’S first point of contact for the public, monitored an average of 7600 calls per month while achieving the following work product:
 - Processed on average 53 License Certifications and Broker Experience Verifications monthly with less than a 48-hour turnaround period, representing a 32.5% increase over the previous year;

- Responded on average to over 20 Division e-mails daily with less than a 24-hour turnaround period;
- Reviewed an average of 50 criminal conviction disclosures per month from licensees and tracked them for timely submission of statutorily required follow-up information, representing a 66% increase over the previous year.

INFORMATION TECHNOLOGY

- Collaborated with the testing vendor to complete the development of the Online Original License Application Module to automate the license application process for new licensees.
- Upgraded aging core server infrastructure with new equipment and software to better support both internal applications and external online systems.
- Installed a back-up server in Tucson's State building to support off-site disaster recovery by synchronizing Phoenix server images in near real time.
- Upgraded core Online System web services to support the State Portal migration from WebSphere to JBoss.
- Enhanced Online Systems for ADRE staff to automate sending email blasts to Licensees and Late Breaking News Subscribers.
- Implemented an online Message Center

EDUCATION DIVISION

Stakeholder Feedback

On January 29, 2013 a Committee composed of Education Stakeholders from the real estate education industry met to discuss establishing a classroom definition and the prospect of course attendance webinars/remote location. This Committee brought forth two recommendations to the Commissioner. The recommendations included:

- Remote continuing education guidelines (established February 2014)
- A Classroom Definition

New Broker Management Clinic Legislation – Adequate Courses

As part of the new Broker Management Clinic law implementation the staff approved 33 live courses and 8 distance learning courses and 41 instructors in record time to implement the new legislation to ensure adequate course availability.

Enhanced Exam Statistic Reporting for Schools

January 2013 ADRE's testing vendor introduced an enhanced Training School Content Area Performance Report for the Prelicensure Schools. The new report provides a detailed/expanded monthly profile to help identify performance statistics based on content area for first time salesperson and broker candidates. The new report consists of statistics (First Time Test takers) and separates performance by National and State Specific Examinations according to the published examination content outlines.

School Audits

January 2013 - reviewed over 215 Real Estate School Audit Declarations as required according to Substantive Policy Statement 2010.03 to ensure compliance of statutes, rules and policies.

Established Education Fees

February 2013 – incorporated new legislation (HB 1526), to implement education application fees for certificate of approval, renewal, change for schools/administrators, instructors, live classroom continuing education courses, prelicensure courses, and continuing education distance learning courses.

New Online Payment System

March 2013 – as part of the fee implementation, enhanced the ADRE web-based messaging system that is integrated with the Online Education System to request and manage payments of education fees online.

Online Updates to Reduce Confusion

October 2013 Enhanced internal and external online system viewing feature to simplify course category identification.

Volunteer Monitor Orientation/Program

November 2013 - after a new volunteer monitor recruitment period, held and video-taped a Volunteer Monitor Orientation to allow for the appointment and training of monitors to assist ADRE in monitoring the many pre licensure and continuing education courses. 46 active volunteers

Volunteer Monitors completed approximately 139 Volunteer Monitor Reviews – which assists ADRE in monitoring the many prelicensure and continuing education courses.

Processing Procedures Documentation

December 2013 revised the internal Education Division Manual to include all processing procedures.

- 3.5 years of careful review of course applications based on detailed review process and enhanced application.
- 3 years of careful review of all instructor applications based on detailed review process and enhanced application.
- Issued two (2) Information Alerts to schools to ensure effective communications
- Held 4 public meetings with the Education Advisory Committee consisting of 14 members from the real estate industry. (Explain committee charge here)

Waivers

Scanned and attached over 2000 education and/ or experience waiver records.

During 2013, the Education Division maintained an average of 31 pending applications, while continually conducting a complex review of course and instructor qualifications with a staff of 2 employees.

Education Applications	As of 12/31/2012	As of 12/31/2013	Increase/Decrease
New Applications Received During Year	2313	1725	-25%
Applications Closed During Year	2328	1762	-24%
Open Pending Applications	68	31	-54%

LICENSING

Broker Management Clinic Legislation

In an effort to ensure compliance, effectively enforced the new statute requirement, effective 1/1/2013, for the 9 hour Broker Management Clinic through inquiry, publication and application.

Processing Procedures Documentation

January 2013, Completed the revision of the internal Licensing Division Manual to include all processing procedures.

New Online Payment System

March 2013 –Enhanced the ADRE web-based messaging system that is integrated with the Online Licensing and Renewal System, to allow staff to initiate online payment requests that cannot be handled by the licensee online.

Supervision Streamlining

April 2013 - Upon the retirement of the Licensing Manager, expanded the Education Manager position to become Licensing/ Education Manager.

New Online “Original” License Application

May 2013 - Launched the new online “original” license application – furthered utilization of ADRE’s technology platform by fully automating the original application process, including the payment feature. As of January 2014, this new technology is at a capacity of 28% utilization and is expected to increase as compared to traditional methods of filing original application.

Assumed New Oversight

June 2013 - Assumed processing of all broker candidate experience verifications.

Consolidated Broker Delegation of Authority Notices

July 2013 - Established a Designated Broker Delegation of Authority form, to accommodate the 2012 legislation (HB 2357) which includes notification of 3 types of delegation: branch manager authority, temporary absence and delegated associate broker authority to review and initial contracts or similar instruments on behalf of the designated broker.

Staff Reduction

Reduced staff from 6 to 4 employees while still maintaining performance measures and expectations.

File Purge

October 2013- Completed licensing file purge project and prepared necessary documentation to timely purge approximately 1,500 established licensing records, per Arizona Records Retention Standards.

Real Estate Licensing	As of 12/31/2012	As of 12/31/2013	Increase/Decrease
Original Licenses Issued (Sales & Broker)	3935	4963	26%
Renewals (Sales)	19647	20664	5%
Renewals (Broker)	5989	6100	2%
Renewals (Entity)	3158	3017	-4%
Walk-in Customers	7365	7297	-1%
Total Number of Transactions Processed	7142	7101	-1%

DEVELOPMENT SERVICES

The Development Services representative has continued to provide customer service to developers and title companies in the filing of public reports.

Development Services	As of 12/31/2012	As of 12/31/2013	Increase/Decrease
Regular Public Reports Issued	29	51	76%
Expedited Public Reports Issued	162	332	105%
Amendments Issued	207	199	-4%
<u>Exemptions Issued</u>	<u>253</u>	<u>172</u>	-32%
Total Applications	651	754	

Scanned 2079 Development Services files

INVESTIGATION DIVISION

During CY2013, the Division's Investigators and Auditors continued to work together to increase Auditing activities throughout the state by working as Auditing Teams.

<u>Real Estate Investigations</u>	<u>As of 12/31/2012</u>	<u>As of 12/31/2013</u>	<u>Increase / Decrease</u>
Open Pending Cases – year end	151	37	-75%
New Cases Received During Year	846	706	-17%
Cases Closed During Year	794	812	+4%
Average Age of Open Cases (Days)	105	59	-44%
Average Case Closure (Days)	67	61	-9%

CY2013 closed with 37 pending real estate investigations with an average completion timeframe of 61 days.

<u>Auditing</u>	<u>As of</u> <u>12/31/2012</u>	<u>As of</u> <u>12/31/2013</u>	<u>Increase /</u> <u>Decrease</u>
Open Pending Cases – year end	82	52	-37%
New Cases Receiving During Year	256	321	+21%
Cases Closed During Year	216	364	+41%
Average Age of Open Cases (Days)	N/A	71	N/A
Average Case Closure (Days)	N/A	91	N/A

During CY 2013, the Department Auditors conducted and/or completed 210 onsite audits (both sales and property management; 107 electronic broker audit reviews (property management only); and, 82 compliance quarterly reviews of Brokers operating under a Commissioner's Order relating to property management trust accounts. In CY 2013, the Department's Auditors completed 364 Audit files with an average completion timeframe of 91 days.

<u>Subdivision Investigations</u>	<u>As of</u> <u>12/31/2012</u>	<u>As of</u> <u>12/31/2013</u>	<u>Increase /</u> <u>Decrease</u>
Open Pending Cases	15	2	-97%
New Cases Received During Year	54	58	+7%
Cases Closed During Year	64	76	+16%
Average Age of Open Cases (Days)	217	295	+27%
Average Case Closure (Days)	289	98	-66%

The majority of Subdivision complaints received during CY2013 concerned Timeshare Owners' concerns regarding increased maintenance fees, an issue that is not within the Department's jurisdiction.

ENFORCEMENT & COMPLIANCE DIVISION (E&C)

In 2013, E&C continued to effectively and efficiently process cases, with a continued emphasis on consistent and stronger disciplinary actions based on proven violations. The number of cases closed continued to be more than the number of new cases received, as well as a decrease in the average amount of time to close cases. Additionally, E&C continued to work directly with the Arizona Attorney General's office to decrease the number of cases backlogged for further disciplinary proceedings.

	As of 12/31/2012	As of 12/31/2013	Increase/Decrease
Enforcement – year end			
Pending Open Cases	119	61	-95%
In House	41	29	-41%
AGO	78	32	-144%
New Cases (Year-includes multiple respondents)	515	432	-19%
Closed Cases (Year-includes multiple respondents)	676	507	-33%
Average Age of Open Cases (Days)	261	101	-158%
Average Case Closure (Days)	168	90	-87%
Civil Penalties	\$515,125.00	\$372,700.00	-33%

Compliance

Cases referred for Compliance decreased from 2012 to 2013, primarily due to decreased closed cases from Enforcement involving continuing compliance monitoring. The Compliance Division, regarding Property Management cases requiring review, worked directly with the Department's Auditing Division to monitor compliance that proven violators were maintaining proper Property Management Trust balances.

	As of 12/31/2012	As of 12/31/2013	Increase/Decrease
Compliance			
Open Cases	240	211	-14%
New Cases	124	94	-32%
Closed Cases	91	88	-3%
Referred for Further Action/Noncompliance	84	36	-133%

Regarding personnel, E&C staff decreased in 2013 (1 Settlement Officer), replacement of the position will be considered in 2014.

Legislative

As in prior years, the Arizona Department of Real Estate ("ADRE") has obtained feedback from real estate industry stakeholders regarding possible legislative issues and emerging industry concerns. These stakeholders include, but are not limited to, the following: The Arizona Association of REALTORS® and its local chapters throughout the state, National Association of REALTORS®, Association of Real Estate License Law Officials, Central Arizona Homebuilders Association, Southern Arizona Homebuilders Association, National Association of Hispanic Real Estate Professionals, Arizona Multihousing Association, Arizona Mortgage Lenders Association, Arizona Mexico Commission, Pima County Real Estate Council, and real estate schools throughout the state, to name a few.

The ADRE continued its work on solving property management issues by holding stakeholder meetings, task force groups, and by placing more focus and resources into enforcement. The Department is

committed to continuing the dialogue with the industry and the Governor's Office into the 2014 Legislative session.

Legislation signed by the Governor during the 2013 Legislative Session relevant to the real estate industry included:

HB 2525 Real estate licenses; exempt sales

The bill allows an inactive licensee, in good standing, to cancel their real estate license without first becoming active. The bill also modifies the public report requirement in the sale of subdivided lands. The Arizona Department of Real Estate worked with stakeholders to add an amendment to the original bill that extended the term for a developer to qualify for an exemption to use the original public report from two to five years. This legislation was intended to reduce unnecessary regulatory burden for developers and the industry. *HB 2525 was signed by the Governor on April 5th, 2013.*

SB 1322 Assured water supply requirements; exemption

The repeal date for session law exempting land destroyed by fire and meeting other conditions from the requirement that a certificate of assured water supply is necessary for the land to be offered for sale or lease is extended 10 years to September 1, 2024. [Capitol Reports note: legislative research staff indicated in 2007 that this session law applies specifically to land at Summerhaven in the Catalina Mountains near Tucson.]

SB 1322 was signed by the Governor on June 20th, 2013.

Substantive Policy Statements

The ADRE worked with the Arizona Multihousing Association to more clearly define record retention requirements.

2013.01 Short Title: Multifamily Housing Records Retention

Per A.R.S. §32-2175 - A broker managing multifamily housing may designate an onsite leasing office as an off-site storage location in this state for residential rental agreements, related residential rental agreement documents and records of finder's fees if the Department of Real Estate is notified in writing. Off-site storage location may include a multifamily leasing office as well as electronic storage. If electronic, then ADRE shall be notified of the physical location and records host as prescribed in SPS No. 2010.01 Electronic Records Storage. Per A.R.S. §32-2151, trust account records shall not be maintained at an onsite leasing office. The broker managing multifamily housing shall notify the department within 10 days of any change in location of the off-site storage location. SPS No 2013.01 became effective on March 28, 2013.